

CALIFORNIA STATE TEACHERS' RETIREMENT BOARD
SUBCOMMITTEE MEETING

SUBJECT: Discussion of 1999/00 Corporate Governance Workplan

ITEM NUMBER: 5

ATTACHMENT(S): 0

ACTION: _____

DATE OF MEETING: October 13, 1999

INFORMATION: X

PRESENTER(S): Ms. Okada
Ms. Hester Amey

Executive Summary

Over the past decade, CalSTRS has developed a list of guidelines relative to selecting underperforming companies for increased review and action.

- CalSTRS has used a guideline that institutional ownership should be at least 50% of the outstanding shares of the targeted company. CalSTRS has found that wide dispersion of ownership causes difficulties in getting the smaller owners to focus on the longer-term issues.
- CalSTRS has used a guideline that its ownership should represent a minimum of 0.50% (one half of one percent) of the outstanding shares of the targeted company. CalSTRS has placed its efforts where its ownership is most significant.
- CalSTRS has used a guideline of comparing performance to the S&P 500 and a respective peer group for each targeted company. This comparison is based on total return over one-year, three-year, and five-year periods. CalSTRS has determined that corporate governance activity should reflect its position as a long-term investor.
- CalSTRS has used a guideline that it does not select a company if insider ownership is 10% or greater. CalSTRS has learned that when there is significant insider ownership, defined as 10% or greater, the likelihood of success for any outside corporate governance activity is substantially reduced.

CalSTRS has used information from a variety of sources that included cooperation with other investors who have voiced concerns on the same company.

Staff has completed the preliminary performance screening on the 100 worst performing companies, in the CalSTRS portfolio, over the one-year, three-year, and five-year periods ended on June 30, 1999. After this list is refined, staff will report its findings to the Subcommittee on Corporate Governance. Due to staffing and workload issues, the maximum number of companies selected for independent action by CalSTRS is anticipated to be fifteen or less. That number does not encompass supportive actions or co-sponsoring activities.